

September 1, 2009

Overview of the Single Audit Act What it Means to NJ School Districts

Presented by:

Scott A. Clelland
Partner
Wiss and Company LLP
sclelland@wiss.com
(732) 283-9300

What Will Be Covered

- Why this presentation is being made
- Impact of the ARRA funds on Single Audits and School Districts
- The basics of OMB Circular A-133, when it is applicable, and what it requires of the auditor
- What compliance requirements are, how auditees can identify them, and what auditors are required to test
- Auditee responsibilities for internal control over compliance and auditor responsibilities for understanding and testing auditee internal control
- Various rules and regulations that must be complied with to achieve compliance
- Tips for auditees to get ready for their audits

Why is This Important?

- Study of Single Audits performed in 2007 indicated that improvements are needed in many areas. Under heavy scrutiny.
- ARRA funding could push some smaller districts over the threshold that requires a Single Audit in IDEA and Title funding in 2009-10 as well as State ARRA funds for equalization aid.
- There will be tremendous scrutiny and oversight on the use and documentation of ARRA funds. Would not be surprised if State and/or Federal Agencies visit districts to perform audits in addition to independent audit.

Recovery Act-Impact on School Districts

- Sudden increase in funds for recipients
- New government programs that may be new to the recipient
- Need for timely and efficient oversight in response to Recovery Act's accountability requirements

Recovery Act-Impact on School Districts

- A significant amount of funding has been provided by the federal government under this act- \$787 billion
- The majority will impact the 2009-10 fiscal year
- Some districts that used funds in summer would be subject to audit at June 30, 2009-several districts were approved for summer programs
- Large portion being provided for education
- ARRA=one time (with NCLB IDEA/Title 1 it could be spread over two years)

Recovery Act-Impact on School Districts

● Seminar In Washington DC

- Every presenter addressed in some way the ARRA funds
- Expect heavy oversight and scrutiny
- Ensure you have controls in place to prevent the misuse of these funds
- Procedures in place to ensure compliance
- Public wants transparency and accountability of the funds
- Do not take internal controls and compliance lightly with these funds or any funds

Audit Scope and Objectives of an A-133 Single Audit

- Conducted in accordance with Generally Accepted Government Auditing Standards (GAGAS)
- Covers entire operations of the entity
- Adequate internal control structure over compliance
- Compliance with laws and regulations
- Follow-up on prior audit findings

When is A-133 Applicable?

- When an entity expends federal awards (either direct or indirect awards) in excess of \$500,000 they are subject to the provisions of OMB Circular A-133.
- Many smaller districts are below this threshold currently. ARRA funding will most likely trigger a Single Audit to be performed for many districts that have not had to have one performed in the past. Federal and/or state Single Audit.
- In New Jersey, we also have NJOMB Circular 04-04, which basically requires a Single Audit to be performed on state programs
- What qualifies as a Federal or State Award?

Definition of Federal/State Award

- Federal and state financial assistance and cost-reimbursement contracts that non-Federal entities receive directly from Federal or state awarding agencies or indirectly from pass-through entities.
- Examples of federal funding in NJ school districts
 - IDEA Basic and Preschool
 - NCLB Title grants
 - USDA child nutrition grants
 - Perkins grants
 - Workforce grants
 - ARRA expected to have most impact on IDEA and Title 1
- Examples of state funding in NJ school districts
 - State fiscal stabilization funds (SFSF)-over \$1 billion of equalization aid is being paid as SFSF funds so that districts that receive equalization aid will receive about 20% of it in federal grants
 - Accounted for in funds 16 and 17

Major Program Determination

Programs Required to be Tested

- Federal programs where total expenditures under the program exceed the larger of (Most districts fall here):
 - \$300,000 or 3% of total Federal expenditures where total Federal expenditures are $\geq \$300,000$ AND $\leq \$100$ million

Requirement of the Auditor is to test each major program at least once every three years

Programs determined to be high risk must be tested every year

Federal government has already defined ARRA funds to be high risk and therefore if your district qualified for a Single Audit (\$500,000), then expect IDEA and Title 1 to be tested by the audit firm

What Auditors are Required to Do Under A-133

- Test Internal Controls over Major Programs
 - Evaluate the design of internal controls and perform tests of controls over the effectiveness of internal controls over each major program
- Compliance with Grant Regulations
 - Federal Compliance Supplement
 - 14 Compliance Requirements
 - Common Areas for Findings
- Develop Reports on Compliance and Internal Control
 - Evaluate Findings
 - Reported findings in CAFR-schedule of findings and questioned costs
 - There has been discussion that findings would be made public and posted on website

Internal Controls over Compliance and Testing-General

- Auditor required to test internal controls over grant expenditures for those attributes that are significant to the grant
- Important that the District have strong internal controls in place over expenditures-added emphasis on ARRA funds
- Examples of controls
 - Signatures on documents denoting supervisory review
 - Documentation of evidence required to be maintained to support expenditure
 - Time and effort reporting in place to track time charged to grant programs
 - If equipment is purchased with federal funds-make sure it is recorded and tracked separately in fixed assets records
 - Grant administrators need to be knowledgeable regarding grant requirements

All Compliance Requirements?

- Do auditors look at all applicable compliance requirements?
 - No
 - Direct, material and applicable compliance requirements
- Should an auditee comply with all applicable compliance requirements?
 - Yes
 - Do not try to predict an auditor's scope

Compliance Requirements-14 Attributes

- Activities Allowed or Unallowed (A)
 - Specifies the activities that can or cannot be funded under a specific program
- Allowable Costs / Cost Principles (B)
 - Specifies the costs that can and cannot be funded under a specific program and how they are calculated and supported
- Cash Management (C)
 - Reimbursements are properly supported
 - Advance payments are properly managed
 - Interest earned on advance payments is inconsequential or remitted to grantor
- Davis-Bacon Act (D)
 - Contractors are paid the prevailing wages of the local department of labor
- Eligibility (E)
 - Participants meet the program criteria to receive grant funding

Compliance Requirements-14 Attributes (continued)

- Equipment and Real Property Management (F)
 - Management, use and disposal of equipment or real property
- Matching, Level of Effort, Earmarking (G)
 - Matching, required cost share
 - Level of effort, required participation from period to period
 - Earmarking, setting aside funding for a purpose
- Period of Availability of Federal Funds (H)
 - Expenditures are within the granting period
 - Claims have been made within a reasonable period of time after the grant period
- Procurement and Suspension and Debarment (I)
 - Federal, state or local procurement laws are followed
 - Vendors and sub-recipients are not suspended or debarred

Compliance Requirements-14 Attributes (continued)

- Program Income (J)
 - Income generated by Federal funds are used for program expenditures
 - Income generated by Federal program offset Federal claims
- Real Property Acquisition and Relocation Assistance (K)
 - Equal treatment by persons displaced by the Federal government
- Reporting (L)
 - Reporting results
 - Performance
 - Financial
 - Special reporting
- Sub-recipient Monitoring (M)
 - Monitoring pass-through funding
- Special Tests (N)
 - Other

Internal Control Testing-Specific

- Test of design and implementation
 - Walkthrough of our understanding
 - Conclusion: Control has been properly designed and implemented
- Test of effectiveness
 - Select a sample and test control attributes
 - Conclusion: Control is effective
- Control must be effective or it would result in a finding
 - If controls are not in place, could result in a material weakness finding, which could ultimately result in material noncompliance and questioned costs
 - Possible compliance opinion modification
- Sample sizes are being modified to further clarify number of items to be tested by auditors

Internal Control Testing-Sample sizes

http://video.webcasts.com/events/aicp001/30717/browser/slides/20090427105172025000/slidepdf.pdf - Microsoft Internet Explorer p

http://video.webcasts.com/events/aicp001/30717/browser/slides/20090427105172025000/slidepdf.pdf

http://video.webcasts.com/events/aicp001/30717/br...

Save a Copy

Search

Select

91%

Sign

Sample Sizes

Minimum samples for populations >250 - CONTROLS

Importance / Significance of Control Being Tested	Minimum Sample Size
	0 deviations tolerated
Very Significant and High Risk of Deviation	60
Very Significant and Low Risk or Deviation Or Moderate Significant and High Risk of Deviation	40
Moderately Significant and Low Risk of Deviation	25

Governmental Audit Quality Center

28

28 of 72

Unknown Zone

Compliance Testing-Specific

- If controls are effective, sample sizes are similar if not the same for compliance testing
- If controls are not effective, sample sizes need to be significantly increased to determine compliance
- Sample sizes also being further defined

Compliance Testing Sample Sizes

http://video.webcasts.com/events/aicp001/30717/browser/slides/20090427105172025000/slidepdf.pdf - Microsoft Internet Explorer p

http://video.webcasts.com/events/aicp001/30717/browser/slides/20090427105172025000/slidepdf.pdf

http://video.webcasts.com/events/aicp001/30717/br...

Save a Copy

Search

Select

91%

Sign

Sample Sizes

Minimum samples for populations >250 – COMPLIANCE

Desired Level of Assurance (Remaining Risk of Material Noncompliance)	Minimum Sample Size
High	60
Moderate	40
Low	25

Governmental
Audit Quality Center

30 of 72

Unknown Zone

Compliance Testing Sample Sizes-Small Populations

http://video.webcasts.com/events/aicp001/30717/browser/slides/20090427105172025000/slidepdf.pdf - Microsoft Internet Explorer p

http://video.webcasts.com/events/aicp001/30717/browser/slides/20090427105172025000/slidepdf.pdf

http://video.webcasts.com/events/aicp001/30717/br...

Save a Copy Search Select 91% Sign

Sample Sizes

Small Populations

Frequency & Population Size	Sample Size
Quarterly (4)	2
Monthly (12)	2-4
Semimonthly (24)	3-8
Weekly (52)	5-9

Governmental Audit Quality Center

31

31 of 72

Unknown Zone

Achieving Compliance

Emphasis on ARRA Funds

First Step to Compliance

Which Circular Do I Follow?

Although there are six federal grant circulars, you are only covered by three of them, depending on type of entity:

States, local governments, and Indian Tribes follow:

- A-87 for cost principles, Relocated to 2CFR, Part 225
- A-102 for administrative requirements (common rule), and
- A-133 for audit requirements

New Jersey:

- OMB 04-04 as well

Compliance Areas that are Expected to have the Most Impact of NJ School Districts-ARRA Funding

- Activities allowed or unallowed and allowable costs
- Cash management
- Equipment and Real Property Management
- Matching, Level of Effort, Earmarking
- Period of Availability of Funds
- Procurement, Suspension and Debarment
- Reporting
- Special Tests

Allowable Costs

- To be allowable, a cost must:
 - Be reasonable for the performance of the award and be allowable in accordance with A-87
 - Conform to any limitations or exclusions set forth in A-87 and the grant agreement
 - Be consistent with policies and procedures that apply uniformly to both federally financed and other activities of the organization
 - Be accorded consistent treatment
 - Not be included as a cost of any other federally financed program (or used to meet matching requirements)
 - Be adequately documented

Sample Items of Allowable vs. Unallowable Costs

Selected Cost Item	Under OMB Circular A-87
Advertising/Public Relations	Allowable with restrictions
Alcoholic Beverages	Unallowable
Bad Debt	Unallowable
Communications	Allowable
Donations and contributions	Unallowable
Depreciation and use	Allowable with specification
Entertainment	Unallowable with qualifier
Fines and penalties	Unallowable with exception
Labor relations	Allowable
Lobbying	Unallowable with exceptions
Maintenance/repair	Allowable with restrictions

Sample Items of Allowable vs. Unallowable Costs

(continued)

Selected Cost Item	Under OMB Circular A-87
Meetings/Conferences	Allowable with restrictions
Pension plans	Allowable with restrictions
Professional services	Allowable with restrictions
Rent of building/equip	Allowable with restrictions
Selling and marketing	Unallowable with exceptions
Taxes	Allowable with restrictions
Training and education	Allowable with limitations
Travel costs	Allowable with restrictions

Allowable Costs-Effort Reporting

- Cost principles for Governments are found in A-87 Attachment B 8(h) and recently added to addendum to the compliance supplement
 - One cost center – approval by responsible official
 - Complete semi-annual personal activity report and place in file-those who are charged 100% to the grant
 - Provides supervisory certification (control) that person worked 100% for the assigned federal program
 - Approval in grant agreement
 - Approval by Board in minutes of specific individuals
 - Multiple cost centers/Split funded employees – personal activity report/timesheet
 - Records must be maintained for each pay period that documents that an employee worked a certain percentage for the grant program and be reviewed and signed by authorized supervisor

Allowable Costs-Effort Reporting (continued)

- In school districts, the personal action report must:
 - Reflect actual effort
 - Account for total activity of the employee
 - Be signed by employee and supervisory personnel
 - At least monthly and coincide with one or more pay periods
- ARRA Funding:
 - Requires time and effort reporting under cross cutting section of federal compliance for IDEA and Title 1 funding
 - Allowable costs must be documented and support on hand

Cash Management

- Reimbursement of funds:
 - Program costs must be paid using entity funds prior to requesting reimbursement
- Advancement of funds:
 - Procedures need to be in place to minimize time between receipt of funds from U.S. Treasury and disbursement
- Interest:
 - Interest earned on advances is required to be submitted promptly (but at least quarterly); \$100 may be kept for administrative expenses
- ARRA Funds:
 - Also requires proper cash management of funds

Real Property Management

- Required to track equipment purchased with federal funds separately as part of fixed asset inventory
- Required before ARRA
- Required for equipment purchased with ARRA funds

Level of Effort and Earmarking

- **Level of effort** includes requirements for:
 - a specified level of service to be provided from period to period,
 - a specified level of expenditures from non-Federal or Federal sources for specified activities to be maintained from period to period, and
 - Federal funds to supplement and not supplant non-Federal funding of services
 - 50% of IDEA funds from ARRA can be used to supplant local funds
 - Title 1 from ARRA must follow current supplement not supplant guidance
 - State equalization aid
 - Maintenance of Effort
 - Comparability reporting
- **Earmarking** includes requirements that specify the minimum and/or maximum amount or percentage of the program's funding that must/may be used for specified activities, including funds provided to sub-recipients

Period of Availability of Federal Funds

- Controls should be in place to ensure grant funds are encumbered/expended in accordance with the timelines of the respective grant agreement

Procurement

- Governments follow regulations for procuring goods and services
 - Federal guidelines
 - State statutes and regulations
- ARRA funding
 - Prohibits funds for a project for construction, alteration, maintenance or repair of a public building or work unless all of the manufactured goods are produced in the US

Suspension & Debarment

- Non-Federal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred
- Procedure should be in place to document review of contractor and verifying they are not on the suspension or debarment list
- Review should be documented for auditor review
- Annually, District should review all significant vendors to ensure they are not on the list and document in files
- Verify status of these parties by using the *Excluded Parties List System* (<http://epls.arnet.gov>)

Reporting

- Ensuring all completion reports agree to underlying accounting and program records
- Reports are filed timely
- Reports are reviewed and signed by appropriate individual
- ARRA new requirements and reports to be filed

Special Tests

- Separate accountability must be maintained for all types of ARRA funds even if part of another program (e.g. IDEA or Title 1 and state aid in funds 16 and 17)
- ARRA funds must be reported separately in the schedule of federal financial assistance
- Any funds provided to subrecipients must be monitored
- ARRA funds must be reported separately on the Data Collection Form

Tips and Best Practices

Tips for Grant Managers/Business Administrators

- Gather and summarize grant information
 - Clean and organized records give auditors comfort
- Document your policies and procedures
 - Documentation drives quality and compliance
- Know where to find the OMB A-133 Compliance Supplement
(<http://eclkc.ohs.acf.hhs.gov/hslc/Program%20Design%20and%20Management/Fiscal/Legislation%20&%20Regulations/OMB%20Circulars/OMBCircularA13.htm>)
- Perform your own risk assessment of controls in place to provide you with the comfort that expenditures will be incurred in accordance with the grant agreement
- Make sure the employees assigned to each grant understand the grant requirements to ensure compliance

Tips for Grant Managers/Business Administrators

- Document your controls
- Make sure everyone in your organization knows your internal control system
- Periodically review the internal control system to see if it is working
- Periodic risk assessments
- Closely monitor new employees for strict compliance with policies

Ways to be Ready for Your Audit (continued)

- Time and Effort Reports:
 - Get your employees into the habit of completing after-the-fact, timely, credible documentation that represents a reasonable estimate of the time worked on each grant project

Ways to be Ready for Your Audit (continued)

- Timely Accurate Financial and Performance Reports:
 - Late reports often indicate weaknesses in grant management systems
 - Late reports are 'red flags' that may invite scrutiny

Ways to be Ready for Your Audit (continued)

- Cost Transfers:
 - Shifts of costs between programs look suspicious
 - Those occurring close to the end of a project are particularly suspect

Ways to be Ready for Your Audit (continued)

- Cash Management:
 - Minimize the time elapsing between drawing down federal cash and disbursing it by check
 - Credit any interest earned back to the federal government

Ways to be Ready for Your Audit (continued)

- Equipment Inventory:
 - Take inventory of all equipment that has been acquired with Federal funds (at least once every two years)
 - Reconcile the inventory count to your property records

Ways to be Ready for Your Audit (continued)

- Non-competitive Procurement:
 - If you award any contracts for goods or services on a sole source basis, prepare a written justification as to why you proceeded with the transaction
 - Example: emergency, no responses to solicitation, etc.

Why Do You Need to Be in Compliance

- Additional scrutiny and oversight
- Public accountability and transparency
- Results of Single Audit or external federal or state audit to potentially be posted on a website for the public to view
- Effect on QSAC-material weakness is an indicator
- You do not want to have to refund funds expended that were deemed not allowable
- Take this seriously because this is on everyone's agenda

Questions

